VZCZCXRO6999
RR RUEHGI
DE RUEHNJ #0419/01 1361235
ZNR UUUUU ZZH
R 161235Z MAY 07
FM AMEMBASSY NDJAMENA
TO RUEHC/SECSTATE WASHDC 5292
INFO RUEHUJA/AMEMBASSY ABUJA 1388
RUEHGI/AMEMBASSY BANGUI 1365
RUEHBJ/AMEMBASSY BEIJING 0053
RUEHDK/AMEMBASSY DAKAR 1295
RUEHKH/AMEMBASSY KHARTOUM 0432
RUEHLC/AMEMBASSY LIBREVILLE 0991
RUEHLO/AMEMBASSY LONDON 1679
RUEHNR/AMEMBASSY NAIROBI 0691
RUEHNM/AMEMBASSY NIAMEY 2938
RUEHFR/AMEMBASSY PARIS 2159
RUEHYD/AMEMBASSY YAOUNDE 1533
RHEBAAA/DOE WASHDC
RUCPDOC/USDOC WASHDC

UNCLAS SECTION 01 OF 02 NDJAMENA 000419

SIPDIS

SENSITIVE
SIPDIS

PARIS AND LONDON FOR AFRICA WATCHERS

E.O. 12958: N/A
TAGS: ETRD EPET EFIN PGOV CD
SUBJECT: CHAD'S NEW PETROLEUM CODE

REF: NDJAMENA 403

¶1. (SBU) Summary: Representatives of the ExxonMobil-led oil consortium view Chad's new Petroleum Code as presenting a reasonable framework of incentives and obligations for foreign companies interested in oil exploitation. The Code is ambiguous on whether companies with existing agreements are required to conform to the new law, but it does contain incentives to do so. While deciding how to proceed on that front, the Consortium will also have to decide (at the end of 2008) whether to renew its exploration permit or to focus on existing production. In the current price environment, Chad's reserves - while not inconsiderable - are very expensive to exploit. Acknowledging that the Chinese operate under different pricing assumptions, the Esso Country Director felt that it might be too expensive for them as well. The Consortium expects to pump 150,000 barrels a day for the next 18 months after which production will decline. End summary.

"NOT OBJECTIVELY BAD"

¶2. (SBU) In a meeting with the Ambassador May 9, new Esso country Director Stephane de Mahieu commented that Chad's newly adopted Petroleum Code was "not objectively bad." He pointed out that, on the royalty side, the numbers were a bit higher (16.5 percent vice Esso's current 12.5 percent rate) but the tax rates (40 - 75 percent depending on conditions of profitability) were compatible with the Consortium's current agreement. Some customs exonerations were better than in the existing Convention. The Code allowed for "project sharing agreements," a kind of agreement now quite widespread according to Mahieu. (Under project sharing a company makes all of the upfront investment and the country's profits wait until their share of the investment costs are written off.) The new Code also permitted the government to be a partner when negotiating production permits.

¶3. (SBU) Mahieu said that the Esso lawyers were still studying whether Esso will be obliged to conform to the Code. The Consortium has a "stability" clause in its existing convention with the Government of Chad (GOC) and other articles which stipulate that any changes must be agreed to

by all parties. The new Code recognizes that contracts could benefit from a stability clause (thereby seeming to validate the sanctity of stability clauses); however, in the transition articles, the new Code states that existing contracts have twelve months to decide whether to roll over into the new Code; if they elect not to, they will need to conform to the decree which sets up a Commission charged with renegotiating existing contracts. Mahieu explained that the Consortium would carefully examine the new Code and use the twelve months to formulate a common position. Unwilling to predict the outcome of those deliberations, he did venture that adjustments to the existing Convention could be considered.

ESSO CONTINUES TO SUFFER HARASSMENT FROM GOC

¶4. (SBU) Mahieu acknowledged that one incentive to renegotiate would be using the leverage gained to "end the harassment." He complained about the unchecked activities of low-level functionaries who contnue to find trivial excuses to threaten to stop production. In addition, although Esso had accepted a government-brokered deal between the Consortium and the labor unions, they could not accept the unions' refusal to accept a "labor truce" in the two year period during which their demands would be met. Mahieu was particularly unhappy that the Government was siding with the unions on this issue. Esso has refused to sign contracts that do not have a two-year "truce." In retaliation, the Ministry of Labor had stopped issuing work permits to Esso staff. Mahieu welcomed the naming of a new Oil Project Coordinator, Ahmat Acyl, and expressed his hope that Acyl would be empowered as a "trouble-shooter" rather than simply

act as a figure head. (Comment: The U.S.-educated Acyl is the brother of first lady Hinda Deby but has an educational background relevant for position. End comment.)

EXPLORATION PROSPECTS NOT BRIGHT

¶5. (SBU) Mahieu said that the Chinese were "working over" the exploration area under permit recently purchased from Encana (Canada). However, he didn't see the usual "flurry of activity" (such as investment in public works) which usually attended Chinese investment in the oil sector. He also felt that, under current market conditions, even the Chinese would have a hard time seeing the viability of exploiting some of Chad's more complicated reserves. As far as Esso was concerned, at the end of 2008 they will be at the end of the second phase of their exploration permit. From the current area being explored they have developed six fields and continue to explore other opportunities. The results to date had been disappointing. They have 18 months to decide whether to request a third phase of exploration or to return the acreage to the state and focus on what they have. Mahieu explained that Chad certainly had more oil, but oil prices needed to be more than USD 65 a barrel for exploitation to be viable. He stated that Esso will be able to sustain 150,000 barrels a day for the next 18 months. Beyond that, the volume would be dependent on pricing. If the price was right, they could certainly bring new technologies to extracting oil that was deeper and more complicated to exploit.

Comment

¶6. (SBU) It appears that the GOC has realized that providing incentives to the oil consortium to renegotiate is a sounder course of action than forcing a show-down. Despite the continued labor and tax issues which the Consortium is experiencing, this is a positive development. The sobering figures on Chad's expected oil returns in the next two years validate the warning of the international financial

institutions (reftel) that the Government's spending spree
will be seriously crimped soon.
WALL